Backgrounder

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THE EXPENDITURE MANAGEMENT SYSTEM REVISITED

GERALD SCHMITZ
POLITICAL AND SOCIAL AFFAIRS DIVISION

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THE EXPENDITURE MANAGEMENT SYSTEM REVISITED

"Lack of money is the root of all evil."

George Bernard Shaw

INTRODUCTION: FINANCIAL MANAGEMENT AND FISCAL REALITY

In February 1983 Saturday Night magazine ran an article entitled "Is Government Spending Out of Control?" This is a now familiar question as the federal budget surpasses $130 billion annually, with much of that outlay supplied through deficit financing. The cost of servicing an ever-expanding public debt is larger than the entire federal budget of little more than a decade ago. In the post-Keynesian world the common parlance of politicians is sprinkled with phrases like "fiscal responsibility" and "restraining the growth of government." However, most proposals to reduce spending would only shrink the huge existing deficit, or at a minimum, check its rate of growth. The idea that government might actually run a surplus seems the product of a simpler and bygone era.(1) At the same time, the machinery of government concerned with budgeting and financial controls has increased enormously both in size and complexity. Government spending on expenditure management has grown much faster than the overall rate of increase in total outlays. But if government has been trying harder to manage its financial affairs, how can a situation have arisen in which there appears to be virtually no manoeuverability within the expenditure budget for the foreseeable future?

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(1) This is somewhat of an exaggeration of course. Several provincial governments (e.g. Saskatchewan and Alberta) ran surpluses during the 1970s. It can be argued that deficits are primarily caused by weak revenues due to economic stagnation rather than by profligacy on the expenditure side. However, even strong economic growth may not be enough to restore balance when the burden of carrying charges on cumulative past deficits passes a certain point. The last federal surplus was in 1974.

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Obviously the fault does not lie with management or management systems alone. Any detailed explanation of the government's financial squeeze would point to many other more important factors. In general, it is much easier politically to implement new programs than to reorient or eliminate existing ones. Besides this tendency towards incrementalist expansion, the growth of government activities creates a multiplicity of constituencies with a vested interest in maintaining funding at least at current levels. Statutory entitlements and indirect expenditures in the form of various tax concessions come to be regarded as permanent features of the service state and in some cases as a matter of right. Adverse macro-economic conditions such as the deep recession of the early 1980s bring into play the so-called automatic stabilizers (e.g., unemployment insurance) and force large increases in non-discretionary spending. The problem is that these unavoidable short-term increases become cumulative when economic recovery is too weak to replenish the cyclical shortfalls caused by recession. The government may also seriously overestimate revenues and underestimate costs as happened with the October 1980 budget which introduced the National Energy Program. The collapse of the world oil price spiral had a dramatic effect on government revenue projections at the same time as very large sums were being expended in subsidies and incentives to the domestic petroleum industry. In short, there are strong pressures for expenditures to increase at a faster rate than revenues. With political will it is possible to resist these pressures, to raise taxes and to achieve reductions in real spending. But without that discipline from the top down no accounting system, however comprehensive, new or improved, will be capable of putting government finances on a sound footing.

Such scepticism notwithstanding, the attempt to implement rational planning and budgeting techniques has had a powerful (though many would say baneful) influence on how Ottawa decides. The current Policy and Expenditure Management System (PEMS) represents the most elaborate effort to date to link the various planning systems associated with fiscal "fine-tuning," priority-setting, policy selection, and expenditure evaluation and controls. Under the Trudeau government, coordinating these systems proved to be as difficult as rationalizing the necessarily political and often

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ambiguous environment in which public policy is made.(2) A sign of the times in 1984 was the decision of the brief Turner cabinet to move in the direction of a simpler executive management structure by eliminating the two secretariats responsible for the coordination of the government's economic and social development policies under PEMS.(3) The Mulroney government has also favoured a reduction in the weight of central agency overview, devolving more responsibility to individual ministers and departmental managers. These reforms to envelope budgeting reflected a different political style of government and were a response to dissatisfaction with the way in which ministers became preoccupied with the exigencies of a "collegial" bureaucratic planning process over and above the care of their specific departmental mandates. Before considering the current features of PEMS, it behooves us to revisit briefly the genesis of the system and to analyse critically its operation since 1979 in light of several governmental transitions.

THE EVOLUTION OF THE MODERN EXPENDITURE BUDGET

The change from traditional incrementalist line-item budgeting (so much more each year for salaries, operating costs and standard categories of expenditure) to strategic budgeting in accordance with a multi-year fiscal plan has taken place over the past several decades. The idea is to break down government expenditure by policy objective and to introduce rational goal-setting and performance measurement into the budgetary cycle. The system functions somewhat like a breeder reactor: it both uses and generates vast amounts of information, the essential "fuel"

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(2) See Richard Van Loon, "Ottawa's Expenditure Process: Four Systems in Search of Co-ordination," in G. Bruce Doern, ed., How Ottawa Spends 1983, James Lorimer, Toronto, 1983; also Richard French, How Ottawa Decides, second edition, Lorimer, Toronto, 1984, which includes a chapter by Van Loon on "Planning in the Eighties."

(3) The secretariats were the Ministry of State for Economic and Regional Development (MSERD) and the Ministry of State for Social Development (MSSD). Staffed by several hundred highly-trained analysts their job was to assist the policy committees of Cabinet responsible for administering the huge Economic Development and Social Affairs envelopes.

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of the policy process. It makes heavy demands on its managers all along the chain of accountability. In the wake of the reforms proposed by the Glassco Commission,(4) financial administration was decentralized to the departments and the philosophy was to "let the managers manage." But, of course, they could not do so in isolation. Broadening responsibility for the expenditure management function to take in every part of government led in turn to the need for greater central coordination of these efforts. Partly in response to the Glassco recommendations the Treasury Board was separated from the Department of Finance in 1967 and established with its own minister and secretariat. The Treasury Board Secretariat (TBS) was put in charge of developing guidelines for the application of appropriate management practices and techniques throughout the public service.

From the mid-sixties on, a variety of information and decision-making systems were introduced: management by objectives (MBO), operational performance measurement system (OPMS), planning programming budgeting systems (PPBS), zero-based budgeting (ZBB), and so on. In Ottawa's world of acronyms these continue to be used, along with various types of cost-benefit or cost-effectiveness analysis. They have had some success in making the line managers more cost conscious and more aware of the government's objectives. However, all have been found seriously wanting by practitioners and outside observers alike. The experience of other countries bears out the hazards of placing too much faith in a single system or set of techniques. For example, PPBS, which originated with the Department of Defense in the United States, had a short career in other parts of the American government even as its virtues were being extolled to Canadian managers.(5)

The philosophy of PPBS, with its emphasis on formal statements of objectives and systematic assessments of the effectiveness of programs in achieving those objectives, fit in very well with the rational

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(4) The report of the Royal Commission on Government Organization issued in 1962 was a landmark in the introduction of modern management principles into the federal public service.

(5) On the travails of successive budgeting systems see David Siegel, "The Evolution of the Expenditure Budget," in Kenneth Kernaghen, Public Administration in Canada, fourth edition, Methuen, Toronto, 1982.

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planning ethos adopted by the Trudeau administration in the late '60s and early '70s. the idea was that if all government programs could undergo such a systematic and rational analysis the budgeting process would over time lead to optimal choices. It was not only technical problems which prevented this ideal scenario from coming to pass. Other more mundane realities intruded upon the planning horizon, among them institutional rigidities and the politics of minority government. Moreover, PPBS, in common with similar decentralized budgeting systems, requires an extraordinary amount of information, time and energy from its managers. Making the system operational involves real costs which must be subtracted from any savings which may accrue through a more efficient allocation of financial and human resources.

In an organization the size of the government of Canada it is impossible to review and evaluate all program expenditures on an annual basis. Budgets have therefore been broken down into "A" and "B" components. The A-base represents the expenditures required to maintain existing programs and operations. Typically the A-base accounts for at least 90% of total outlays, and a large portion of this is effectively locked-in by statute - payments on the public debt, transfers to individuals and to provinces, etc. Even if periodic reviews are conducted, A-base estimates generally leave little scope for reduction. The B budget represents the margin of discretionary spending on new programs and initiatives. However, prior to PEMS, decisions on proposals in the B budget were taken by the policy committees of Cabinet before a formal evaluation of costs had been done by Treasury Board. This put the Treasury Board (or the Department of Finance) in the unenviable ex post facto position of having to say "no" to some approved programs on the grounds of insufficient funds. An adversarial relationship tended to develop between these central agencies and the spending departments, which also strongly resisted "X" budget exercises designed to weed out inefficient or unproductive programs. Ministers and their bureaucrats were primarily concerned with protecting and enlarging the B budget. Combined with the incremental and seemingly inexorable expansion of the A-base, it is not surprising that federal expenditures tended to grow at a faster rate than GNP. For most managers financial

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control was still not perceived as a fundamental element of expenditure budgeting; policy design was.

By the middle of the 1970s it was evident that slower rates of economic growth (and such reforms as the indexing of personal income taxes) would not allow revenues to keep pace with the sharply rising costs of public services. In good times it might have been possible to simply approve worthy additional programs and cost them later. But under increasingly severe financial constraints, budgeting could not be simply a matter of selecting the right policies; it would have to force choices among policy options on the basis of concrete cost evaluations. In other words, policy determination would have to take place within definite expenditure limits. Otherwise, as the Auditor General warned in his annual report of 1976, not only Parliament but the government itself would lose control over the public purse.

The debate over spending limits and getting "value for money" had several significant results. The government made a commitment to hold budget increases to the overall rate of growth in the economy. (From the federal point of view this was also part of the rationale for moving to "block funding" of the shared-cost programs administered by the provinces.) By and large the government was able to keep this commitment. The strongest evidence was in 1978 when Prime Minister Trudeau moved unilaterally to announce dramatic budget cuts following the Bonn Economic Summit. As a result, federal expenditures actually declined in 1979 by 2.8% in real terms, although, in terms of rational planning and management, the exercise was somewhat of a one-shot disaster. There had to be a better way.

Following the Auditor General's criticisms, the government had moved quickly in 1976 to appoint a Royal Commission on Financial Management and Accountability (the Lambert Commission). Before its final report was released in 1979 the government had already taken steps to reorganize the TBS to assert more direct central (political) control over the expenditure budget process. In 1978 an Office of the Comptroller General (OCG) was set up which superseded many of the functions performed by the Planning and Program Branch of Treasury Board. Under the guidance of

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Douglas Hartle this Branch had developed an elite corps of specialists in program evaluation using sophisticated micro-economic analysis. But by 1978 Hartle himself was voicing scepticism about the practical utility of such techniques given the well-known bureaucratic rigidities and the unknowns of "macropolitics."(6) Under the OCG the goals of program evaluation became less esoteric. The primary role of the Comptroller General was to institute better management procedures in departments and to force them to integrate their budgeting and operational plans into the overall expenditure plan of the government. In short, policy selection was to take place within a tightly-controlled framework with the OCG acting as the government's own financial watchdog.(7)

The granting of new powers to the Auditor General in 1977(8) and the creation of the OCG in 1978 were regarded by the Lambert Commission as only first steps on the road to recovery. In its final report the Commission made 165 recommendations designed to strengthen the chain of accountability. From the point of view of the government's expenditure cycle, the key recommendation was for the adoption of a medium-term

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(6) As Hartle exchanged the role of architect for that of critic, compare, for example, his early articles with A Theory of the Expenditure Budgetary Process, Ontario Economic Council, Toronto, 1976, and especially The Expenditure Budget Process in the Government of Canada, Canadian Tax Foundation, Toronto, 1978.

(7) See Harry Rogers, "Program Evaluation in the Federal Government," in G. Bruce Doern and Allan Maslove, eds., The Public Evaluation of Government Spending, Institute for Research on Public Policy, Toronto, 1979; also J.M. Jordan and S.L. Sutherland, "Assessing the Results of Public Expenditure: Program Evaluation in the Canadian Federal Government," Canadian Public Administration, Winter 1979, p. 581-609; H. Rogers, "Management Control in the Public Service," Optimum, IX:3, 1978, p. 14-28; Timothy Reid, "Federal Government Experience with Measuring Program Performance," Optimum, IX:4, 1978, p. 17-28.

(8) The concept of "value for money" or so called "comprehensive auditing" became politically irresistible. It meant that the Auditor General could go beyond the usual measures of economy and efficiency in examining the probity of government spending practices. He could now also monitor whether proper procedures were in place to evaluate the effectiveness of programs in achieving their stated objectives. For a survey of these developments see S.L. Sutherland, "On the Audit Trail of the Auditor General: Parliament's Servants, 1973-1980," Canadian Public Administration, Winter 1980, p. 616-645.

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fiscal plan (covering the current year and the next four years) which would link policy initiatives to projected revenues and expenditure ceilings. Additionally, the roles of the central agencies as policy coordinators and managerial supervisors would have to be redefined. Departmental managers would have to be educated as to the expectations and constraints of a forward-planning system for the allocation (or reallocation) of limited resources. The reporting and evaluation procedures of many departments and agencies would have to be completely reformed. To achieve financial discipline would mean being able to mesh the comparative analysis of policy objectives and expenditure proposals so that ministers and central agency managers could make informed choices for which they could subsequently be held accountable.

The Lambert Commission has been criticized as naïve in supposing that a more businesslike management approach could be neatly applied to an organization as vast and multipurpose as the federal government. It was perhaps unrealistic to expect there to be a "bottom line" in government.(9) More efficient management would not solve the problem of deficits. Comprehensive program evaluations would flood the system with costly information but were of even more dubious value, especially since the political masters were inevitably more interested in delivering new programs than in chopping old ones. Despite the legitimate scepticism, the Lambert proposals did inspire the Clark government to undertake a thoroughgoing reform of the executive and expenditure budget process. Some of these changes had already been anticipated by the Trudeau government, - for example, the Board of Economic Development Ministers which became the Economic Policy Committee under Clark. The effect of the Clark reforms was not lost. Under the guidance of senior mandarins associated with the new system, notably Michael Pitfield, it was a reborn

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(9) See J.R. Mallory, The Structure of Canadian Government, revised edition, Gage, Toronto, 1984, p. 192-193; also Douglas Hartle, "The Report of the Royal Commission on Financial Management and Accountability (The Lambert Report): A Review," Canadian Public Policy, Summer 1979, p. 366-382; and the "Symposium on the Report of the Royal Commission on Financial Management and Accountability," Canadian Public Administration, Winter 1979.

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Trudeau government which carried on Lambert's legacy and brought envelope budgeting in the 1980s.

THE POLICY AND EXPENDITURE MANAGEMENT SYSTEM (PEMS), 1979-84

As its name implies, the crucial aspect of PEMS is its emphasis on the inseparability of policy selection from expenditure analysis within the context of an overall fiscal plan. PEMS forces all departments, not just the Finance Department and the Treasury Board, to: a) engage in a long-range planning of spending requirements, and b) seek to finance new programs as much as possible from savings and from the reallocation of resources as priorities change. Spending and saving decisions are considered jointly by the various Cabinet committees, each of which is assigned responsibility for one or more envelopes. The envelopes correspond to the functional objectives and operations of government, and the amount of funds within each envelope is set at a percentage of the total budget. The fiscal plan determines envelope budget shares for the current year and projects them for the next four years. Under the Trudeau government of 1980-84 there were ten envelopes administered by four sectoral Cabinet committees, plus the preeminent Priorities and Planning Committee which administered the Fiscal Arrangements and Public Debt envelopes in addition to its system-wide responsibilities. (For an outline see Figure 1 on the following page.(10)) The "P & P" committee, chaired by the Prime Minister, acted in a similar fashion to the "inner" cabinet of the Joe Clark government. With the plenary cabinet meeting only rarely, it stood as the apex of the system and made the key decisions respecting the fiscal plan as a whole.

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(10) The respective functions of each component were officially described in The Policy and Expenditure Management System, Privy Council Office, Ottawa, March 1981. After the departmental reorganization of January 1982 the Cabinet Committee on Economic Development became the Committee on Economic and Regional Development and the Ministry of State for Economic Development (MSED) became MSERD.

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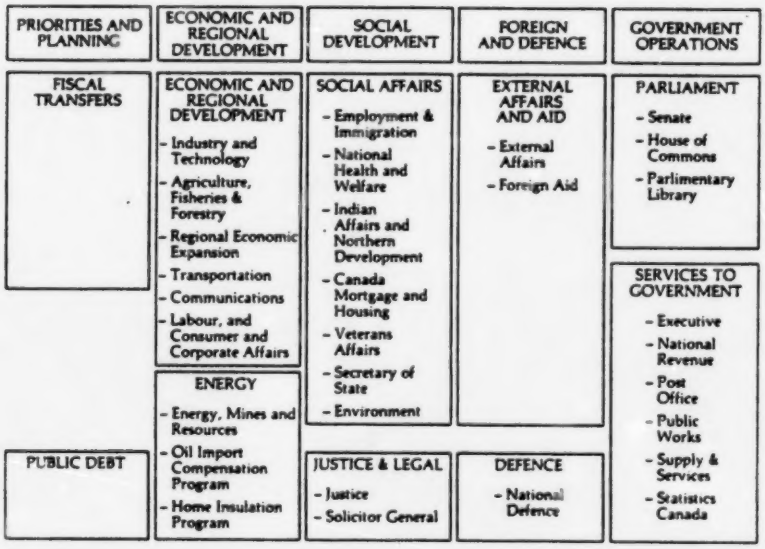
Figure 1

The Cabinet Committee - Envelope Structure of the Trudeau Cabinet*



* Source: Thomas D'Aquino et al., Parliamentary Democracy in Canada: Issues for Reform, Business Council on National Issues, Methuen, Toronto, 1983, p. 60, Figure 1.

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As Jerry McCaffery notes:

> ... the envelope system was created both as an economizing measure and as an improvement in the process of deciding. It was a deliberate attempt to provide a steering mechanism, to provide leadership in uncertain times and to ensure that the leadership would be seen as coming from elected politicians rather than the anonymous but powerful "mandarins" of the civil service. Consequently the envelope system focused on overall government priorities, five year budget plans, enveloped spending limits by policy sector, funds for new initiatives and a cabinet committee system where elected ministers had clear responsibilities for sectoral leadership, directed by the "inner cabinet" elite committee chaired by the Prime minister. This committee was to set government wide priorities; the others were to refine them as they applied to their areas as well as develop intermediate sized initiatives arising out of the operations of the departments in their envelopes.(11)

Within the new system the expenditure budget cycle began with what Van Loon refers to as the "Lakes and Lodges" meetings of the Priorities and Planning ministers, usually in late summer or early September before the fall sitting of Parliament.(12) After this initial review of the government's priorities for the coming year(s), the Minister of Finance would prepare a memorandum to Cabinet surveying economic conditions and forecasting revenues and expenditures of the subsequent year and the next four years. The memorandum also suggested appropriate levels of spending for each envelope based on the estimates for the ongoing A-base (provided by the TBS) plus additions or subtractions depending on the priority attached to the particular envelope area. It was primarily these projections which formed the basis of the Planning and Priorities committee's proposed allocations which were then ratified by the full Cabinet in the final "Record of Decision." The latter included a statement of the government's priorities, specific areas of action, and the five-year envelope expenditure ceilings. Also, as part of the long-range planning cycle the Cabinet committee chairmen would request "strategic overviews"

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(11) Jerry McCaffery, "Canada's Envelope Budgeting System," American Review of Canadian Studies, Vol. XIV, Spring 1984.

(12) Van Loon, "Planning in the Eighties," p. 161ff.

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from the ministries to help implement priorities and to foresee problems or changes. In early spring the ministries began work on the preparation of a sectoral outlook paper based on the strategic overviews and other sources of information about the sector. The results of these priorities planning exercises were fed back into the Cabinet committee system and became inputs into the next round of Lakes and Lodges discussions.

Under PEMS, once the initial envelope limits have been announced, the financial implications for each sector are examined by the TBS and the supporting central agencies. While the TBS controls for costs, the main preoccupation of the line ministries is to have a significant "policy reserve" out of which to fund new programs. Generally under the rules of envelope budgeting the allocated reserves have been very small (and may even become technically negative if there are substantial unanticipated increases in A-base expenditures), so that enlarging the size of the reserves must come through reductions in older programs. Each envelope has in fact two reserves. In addition to the policy reserve there is an "operating" reserve for adjustments, contingencies and emergencies. There is also a lapsed funds percentage calculated against each envelope and a central operating reserve to cover adjustments in the cost of statutory programs. The provision of operating reserves was intended to ensure that any policy reserves which were created were kept free for new policy initiatives.(13)

The five-year planning horizon contained within it a more concentrated 24-month cycle (see Figure 2). Detailed operational planning for the next fiscal year would start at least 12 months before the Main Estimates were tabled in Parliament. Departments and agencies were responsible for the preparation of strategic overviews and five-year "Multi-Year Operating Plans" (MYOPs) which ideally covered all aspects affecting expenditures for the period in question. The MYOPs were to be submitted around the start of the current fiscal year. A very complex bargaining process then ensued among the Treasury Board, ministries of state and line departments. The central agencies would try to keep ongoing expenditures as low as possible within envelope limits, thereby providing

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(13) For a detailed chart of the reserve system see McCaffery (1984), p. 47.

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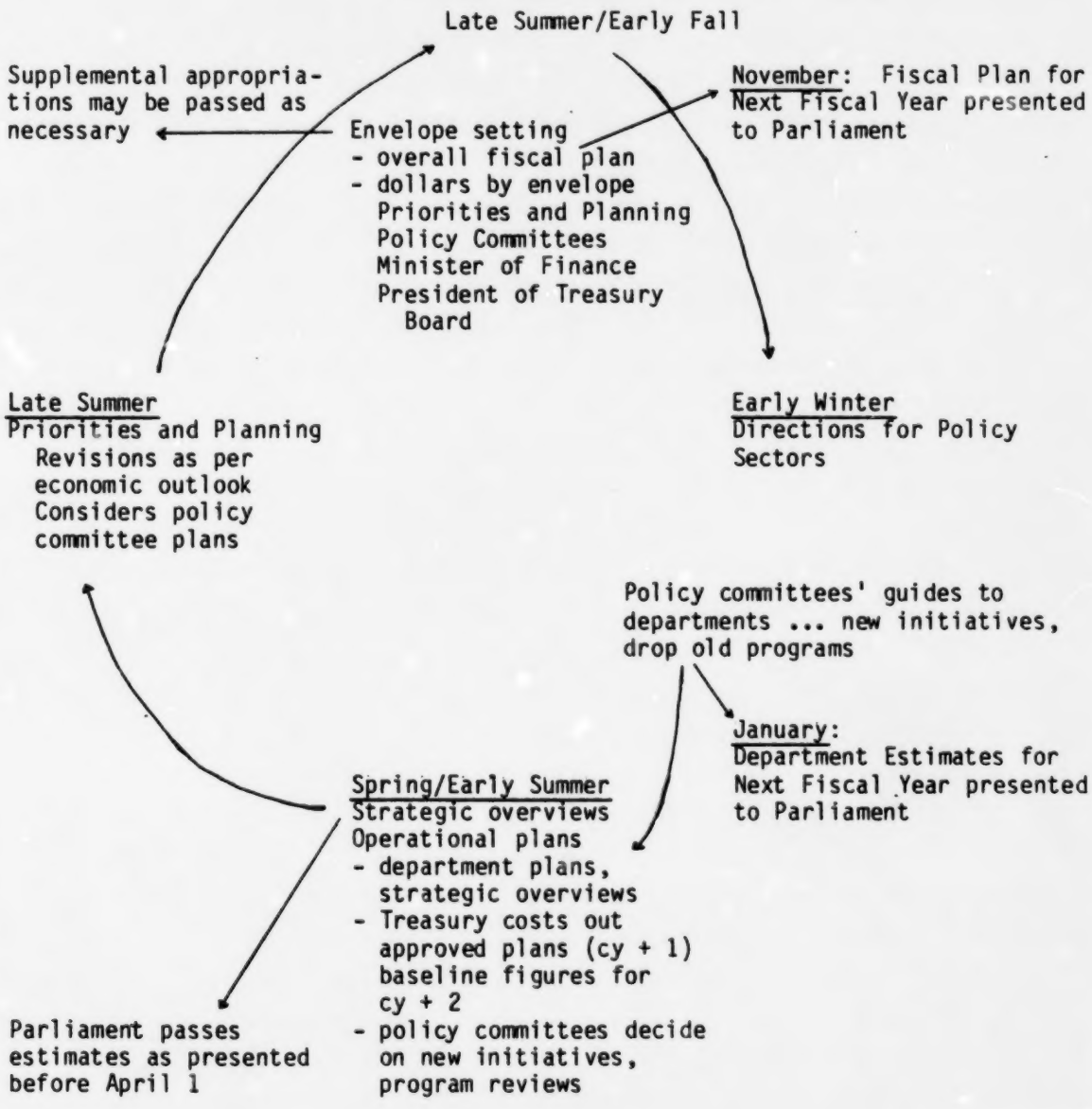
Figure 2: The Normative Planning Cycle of PEMS*


Late Summer/Early Fall
Supplemental appropriations may be passed as necessary
Envelope setting
- overall fiscal plan
- dollars by envelope
Priorities and Planning
Policy Committees
Minister of Finance
President of Treasury Board
November: Fiscal Plan for Next Fiscal Year presented to Parliament
Late Summer
Priorities and Planning
Revisions as per economic outlook
Considers policy committee plans
Early Winter
Directions for Policy Sectors
Policy committees' guides to departments ... new initiatives, drop old programs
January:
Department Estimates for Next Fiscal Year presented to Parliament
Spring/Early Summer
Strategic overviews
Operational plans
- department plans, strategic overviews
- Treasury costs out approved plans (cy + 1) baseline figures for cy + 2
- policy committees decide on new initiatives, program reviews
Parliament passes estimates as presented before April 1

Throughout the year as a result of decisions in Priorities and Planning, policy committees revise plans and then departments prepare new initiatives, reviews for consideration in context of new priorities and envelope levels.

Note: "cy" refers to current year.

* Source: McCaffery, "Canada's Envelope Budgeting System", Exhibit 4, p. 51.

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the government with some B-budget elbow room. The operating departments, however, would tend to inflate their A-base estimates to protect themselves from cutbacks, and each wanted to maximize its share of discretionary spending. In October a Budget-year Operational Plan was prepared comprising the first year of the MYOP and setting out more specifically the departmental goals and resource requirements in the year for which the Estimates were being prepared.(14) When the process was complete the Consolidated Main Estimates, commonly known as the "Blue Book," were ready to be tabled in the House of Commons early in the new calendar year.

Under the reformed Estimates procedure phased in by the OCG, financial information was now presented to Parliament in three parts. The new format, like the basic PEMS cycle, has not changed much. Part I of the Estimates elaborates the government's five-year fiscal plan by envelope and is mainly the responsibility of the Minister of Finance, who also presents a multi-year fiscal overview as part of the annual Budget. Part II is the massive Blue Book referred to above. It contains the detailed items of expenditure subsequently to be passed by Parliament in the form of appropriation "votes" through the normal supply process. (Supplementary estimates are introduced and passed in a like manner in a later supply period.) Part II of the expenditure plan completes the process by providing comparative information on how the government has been allocating money, and how well it has been meeting its stated objectives for each department, agency and program. The purpose of Part III is to allow the non-specialist to better evaluate the results of government spending over time. This "feedback" part of the cycle in particular builds on the work of the OCG in applying techniques of program evaluation throughout the administrative structure of government.

As indicated earlier, the integrity of a multi-year fiscal framework rests first and foremost on the degree of adherence to the

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(14) The implementation of comprehensive multi-year operational plans in all departments and agencies was not to be fully effective until fiscal 1986-1987. For further description and an early progress report see Van Loon, "Kaleidoscope in Grey: The Policy Process in Ottawa," in Michael Whittington and Glen Williams, eds., Canadian Politics in the 1980s, 2nd ed., Methuen, Toronto, 1984, p. 427-429; Accountable Management, President of the Treasury Board, Ottawa, March 1981, p. 3-6.

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outline projected in Part I. Although the plan is regularly reviewed and updated in response to changing economic conditions, PEMS is not, as McCaffery points out, "a rolling budget with out-year budget estimates changing as current year programs change".(15) The whole idea of PEMS is that the political leadership in Cabinet determines policy selection within certain expenditure targets and so on down the line. If the envelope ceilings are not respected then there is less incentive to work collegially within the system and the concept of strategic budgeting is likely to give way to short-term, self-interested behaviour. To maintain the discipline of PEMS it is essential that all actors in the system have some measure of confidence in the overall reliability of the fiscal plan.

PROBLEMS WITHIN PEMS: A MID-TERM ASSESSMENT

Did the introduction of the envelope system result in, to use Sandford Borins' phrase, a more "workably rational" approach to budgeting in Ottawa?(16) This remains a debatable point despite the obvious merits of integrating policy and expenditure decisions. For one thing, PEMS created a growth industry of elite policy analysts at the centre, but it took longer for it to be fully accepted and implemented within the line departments. The weight of central agency overview produced a good deal of mistrust and friction. The very complexity of the system ensured that conflicts were inevitable. Ministers of line departments felt they had lost too much freedom to manoeuvre; that they had to make too many accommodations to their fellow ministers within the envelope and to officials in other departments and in the ministry of state. In particular, ministers who were not members of the Priorities and Planning Committee might have resented spending a lot of time discussing each other's proposals given that envelope policy reserves accounted for only about 1% of the total budget. (There was a feeling as well that the

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(15) McCaffery (1984), p. 50.

(16) Sandford Borins, "Ottawa's Expenditure Envelopes: Workable Rationality at Last?" in G. Bruce Doern, ed., How Ottawa Spends Your Tax Dollars 1982, James Lorimer, Toronto, 1982.

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really big decisions regarding new allocations were taken in P & P with the advice of the Minister of Finance.) Ministers could find their own priorities upset by the bureaucratic, peer-review nature of this procedure. In the words of one analyst, "the benefits of collegiality can cut both ways; the more each minister can broaden his or her influence into another's portfolio, the more others can interfere in his or her mandate. In the process all the officials can meddle outside their territory."(17)

The reality is that line ministers are more inclined to make their mark on a portfolio by spending money in pursuit of what they deem to be worthy objectives than by saving money for the government as a whole (especially at the expense of one of their client groups). Not only do existing programs usually have strong advocates in the bureaucracy, but ministers themselves are frequently called upon to be advocates for a particular constituency. For example, the Minister of Agriculture may argue in Cabinet for more aid to hard-pressed farmers, and so on. The incentives to spend tend to be more direct than those to save. Moreover, departments will not show any enthusiasm for X-budget exercises if there is no quid pro quo in terms of B-budget reallocations. Notes Allan Maslove:

> Previous to PEMS a department had a limited incentive to seek out inefficient or outdated programs and to eliminate or change them. In all likelihood the money saved would stay with the department and would be available to spend on other new or expanding programs. Under PEMS, there is a greater chance that the savings will be claimed by the relevant "envelope" and be reallocated elsewhere. And, clearly, the larger the savings, the more worthwhile it is for others to fight over them. In these circumstances, the incentive for

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(17) Cited in Richard Van Loon, "The Policy and Expenditure Management System in the Federal Government: The First Three Years," Canadian Public Administration, 26:2, Summer 1983, p. 278. Proposals from departments had to be screened by "mirror committees" of deputy ministers before even reaching the Cabinet committee stage. Such proposals were also subject to complex assessments by the ministries of state before being approved or rejected by the appropriate policy committee on so-called "banking" or "auction" days. (For further description and analysis see the above article by Van Loon and an earlier article "Stop the Music: The Current Policy and Expenditure Management System in Ottawa," Canadian Public Administration, 24:2, Summer 1981; also McCaffery, p. 50-53.)

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> departments to examine critically their ongoing programs ("A" base), which is never strong in the best of circumstances, is even more blunted.(18)

Beyond protecting their A-base estimates, departments can flood the system with proposals for new spending or circumvent it by exploiting loopholes. For example, through a procedure known as "net voting" the costs of one program can be offset by the revenues from another within an item in the estimates. The effect is to understate both expenditures and revenues by an equal amount allowing internal allocations to take place which have not passed the scrutiny of a policy committee of Cabinet.(19)

More important has been the growing tendency to use non-budgetary measures and indirect expenditures to implement policy decisions. Different rules have applied to different instruments which have yet to be adequately integrated into the envelope process. The amount of an increase in tax expenditures (which are simply decisions to forego collecting tax revenues provided specific requirements are met) would be fully charged against the envelope policy reserve, but a reduction was not fully credited to the reserve. The fiscal plan still does not give multi-year information on tax expenditures, nor does it identify their allocation by envelope. To the extent that tax expenditures are a substitute for actual outlays, the budgetary envelopes do not give a full and accurate record of the financial implications of policy choices. As for the granting of loans, there are problems with charging the amount of these loans against envelope reserves. In any case, accounting for such liabilities could be evaded by channelling aid through specialized agencies (e.g., the Export Development Corporation) whose lending activities are not part of the envelope system. In the case of loan guarantees, some of which have been very large, only if there is a default would there be a charge against the envelope. Even in that eventuality the loss would probably

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(18) Allan Maslove, "Ottawa's New Agenda: The Issues and the Constraints," in Maslove ed., How Ottawa Spends 1984: The New Agenda, Methuen, Toronto, 1984, p. 19-20.

(19) Cf. A.R. Dobell, "Pressing the Envelope," Policy Options, Vol. 2, November-December 1981, p. 13-18.

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have to be met from the central reserve. In addition to such liabilities, and to borrowing by Crown corporations and agencies, the costs of new regulations have largely escaped the discipline of envelope budgeting. In sum, there are a number of policy instruments which impose indirect or potential real costs on the treasury but which have not been fully accounted for through the envelope system.

The envelopes themselves, which vary greatly in size and degree of discretionary spending, have not been defined as rigidly or precisely as the rational planning structure of PEMS would imply. In general the hierarchy among envelopes in terms of allocations does reflect the government's priorities over the medium term. The creation of a special Energy envelope in 1980 clearly indicated the importance attached to the National Energy Program. However, if there are major miscalculations built into the plan there will have to be major adjustments in subsequent iterations. The solution is obviously not to create a new envelope each time there is a new priority such as job creation. But given that priorities and economic forecasts can change direction sharply, there must be flexibility among envelopes and the ability to coordinate policies across envelope lines.

There have been a number of instances of cross-envelope issues and of "emergencies" which called for large expenditures not anticipated by the fiscal plan. Many areas of public policy have both social and economic dimensions. Cooperation between the ministries of state was therefore often vital, but there were few examples of joint funding of proposals. Money could be found in other ways. As Van Loon pointed out, while virtually all departments had all their programs falling within a single envelope, there was nothing to preclude departments from going "shopping" for funds in another envelope. However, Van Loon also cautioned that: "The essence of cross-envelope issues is, of course who pays? Each [Cabinet] committee will naturally try to pass the cost to the other and both will enthusiastically support any suggestion that such funding should appear mystically from consolidated revenues thanks to a kindly Minister of Finance."(20)

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(20) Van Loon, "The Policy and Expenditure Management System in the Federal Government: The First Three Years," (1983), p. 262.

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Given an inadequate and unreliable fiscal framework, the Finance Minister could expect to be called upon for large special allocations or "emergency" funding (e.g., for job creation programs and other stimulative measures) which could not be reasonably handled through the envelope policy reserves.(21) Technically, such special disbursements were made subject to scrutiny by the appropriate policy committee of Cabinet. In reality, as Van Loon observed, "once the funds are earmarked they are controlled by the minister to whom they will eventually go and the ability of the policy committee or its ministry to influence policy design is extremely limited..."(22) The power of the Finance ministry to advise the Cabinet Priorities and Planning committee to make these allocations meant that departments were likely to regard the envelope limits as floors rather than as ceilings. Warned Van Loon:

> ... too much flexibility within the framework, considered with what many would argue are too many central agencies which mix "guardian" and "advocacy" roles, stirred up by a few skillful spending ministers is no recipe for controlling expenditures. Indeed one can develop quite an alarming hypothesis. The existence of a plethora of central agencies may set up a competitive situation among them. What they must compete for is policy influence and bureaucratic popularity. They do this by allocating money and since their clientele is spending ministers and departments, popularity is better achieved by recommending increased than decreased allocations. The paradoxical result may be a higher level of expenditure than could be attained in a system with fewer central agencies devoted to

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(21) Ironically, at the same time as Finance's judgement with respect to the projections in the fiscal plan was increasingly questioned within Cabinet, the gaps in the plan breached the envelope strictures, thereby pre-empting the policy committee process and forcing departments to fall back on Finance for additional funding. (For further comments on the Finance planning system see Van Loon, "Planning in the Eighties" in French, 1984, p. 167-170; and W. Gillespie, "The Department of Finance and PEMS: Increased Influence or Reduced Monopoly Power," in Maslove, How Ottawa Spends 1984, p. 189-214.)

(22) Van Loon, "The Policy and Expenditure Management System in the Federal Government," (1983), p. 275.

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guarding the purse: too many guardians may spoil the savings.(23)

Despite its apparent rationality and discipline, the envelope system set up a complex bargaining situation in which bureaucratic and political manipulation clearly could and did occur. As in any series of trade-offs the name of the game has been to minimize funding losses and maximize policy gains. Ministers and departments which "lose out" in one round will expect some compensation, at least in a subsequent round. Moreover, due to the frequently catchall "motherhood" definition of Cabinet priorities, it is always easier to justify new programs than it is to drop or cut back existing ones. Because the ministries of state spent most of their time on the management of day-to-day issues they did not develop a consistent and rigorous set of evaluative criteria to apply to programs in each sector. Consequently, a great deal of fundamental long-range policy research was not done. Some of the established programs in the larger departments did not receive very much scrutiny as to their effectiveness.

In evaluating the formative stages of PEMS, one must be aware that it was, and to some extent remains, an uneasy marriage of at least four separable planning and decision-making systems. The most critical of these to the overall budgetary position of the government is the macro-economic fiscal framework which is in the hands of the Minister of Finance. The Treasury Board mainly manages the A-base of current expenditures, while new policy initiatives have been the province of the sectoral Cabinet committees and, until 1984, several supporting ministries of state. At the apex of the system, the Priorities and Planning committee is responsible for setting out broad priorities for the government as a whole.(24) There is coherence in theory. But without a reasonably

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(23) Van Loon, "Ottawa's Expenditure Process: Four Systems in Search of Co-ordination," in Doern, How Ottawa Spends 1983, p. 109.

(24) Van Loon described the annual priority and expenditure decision cycle as encompassing four analytically distinct planning systems: the "routine" new expenditure system (envelope policy committees), the A-base management system (Treasury Board), the Finance planning system and the fiscal framework (Department of Finance), and the macropolitics system (Priorities and Planning). ["Planning in the Eighties," p. 161-173.]

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accurate fiscal plan "the system becomes unglued."(25) The ill-fated 1981 budget, which failed to forecast an impending recession, dealt a heavy blow to envelope planning in subsequent years. Priorities and Planning took direct charge of the crisis through its "6 and 5" program and special economic recovery projects, pre-empting decisions which normally should have been taken in the envelope policy committees. The amount of some of these special allocations was very large (e.g., $1 billion in housing assistance over two years), considering that in 1983 the total of all envelope policy reserves was estimated at less than $1 billion.

As McCaffery and others have noted, the policy reserves will probably never be very large, even in good economic times, because of the difficulty of making large cuts in existing programs, especially those mandated by statute or federal-provincial agreement. And given the current fiscal squeeze, a portion of any savings may have to go toward deficit reduction rather than new programs. With a reduced B budget, the system creates an incentive for departments to maintain their A-base estimates as high as possible (multiplying the occasions for conflicts with Treasury Board). It also encourages departments to "end run" the envelope review process by pleading special circumstances to Priorities and Planning and the Minister of Finance. If there is an injection of genuinely new money into an envelope, dividing up the spoils may be relatively easy. It is cutting into the base to create a larger policy reserve that is much harder. There is the further complication in that the five-year horizon of the fiscal plan is inevitably subject to an electoral planning horizon. A politically-sensitive envelope like that of Social Affairs might therefore be expected to increase its budget share in a pre-election year.(26)

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(25) McCaffery (1984), p. 55.

(26) In the first several fiscal plans of the resurrected Trudeau government, which saw the introduction of the NEP, Social Affairs definitely was to take second place to Economic Development with regard to new spending. But, with the recession taking its toll and the government into the second half of its mandate, Social Affairs substantially increased its budget share beyond the original projections. By then MSSD had also learned to give the priorities of its envelope a "harder" and more political definition. (On this interdependence of bureaucratic and political rationality see G. Bruce Doern and Richard Phidd, Canadian Public Policy: Ideas, Structure, Process, Methuen, Toronto, 1983, p. 281-284.)

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Envelope budgeting can provide a very basic guideline for where the government wants to be in the future. PEMS is a top-down system and over the long term envelope budget shares should be able to be targeted with a fair degree of confidence. But in the shorter term an erroneous fiscal framework can overturn the system's best laid plans. For example, the severe recession of the early 1980s resulted in an increase, as a result of mandatory transfer payments, of about $2 billion in the Social Affairs envelope for fiscal 1982-83 over the level projected in the 1981 budget. Some of this money was then "raided" from the Energy envelope which was sharply affected by the downturn in the economy and in energy prices. As well, by underestimating expenditures and overestimating revenues the government failed to anticipate much of the huge increase in the Public Debt envelope. Even if much of the increase in the deficit was cyclical rather than structural,(27) the trend of those years - with the federal deficit rising from 4.1% to 8.3% of GNP from 1981 to 1983 - was certainly cause for concern. It showed that the forward-planning processes of PEMS, while necessary to bring some orderly direction to a complex environment, were not in themselves sufficient to tackle the A-base, the so-called "uncontrollables" of public expenditure, or to contain the rate of growth of government spending within that of GNP.

To sum up, the experience of the first five years of PEMS confirmed the virtue of linking policy to expenditure decisions within a continuous multi-year budgetary process. But it also demonstrated the very clear limits to rationalistic and bureaucratic planning exercises, and the problems of coordination which arise when there are multiple objectives (not always compatible) and no single economic approach or philosophy of public finance predominates. The envelope system was more than a

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(27) The "structural" deficit is that portion which would remain even if the economy were operating at full capacity. This structural shortfall seems certain to increase unless taxes are raised and/or subsidies reduced. However, despite this gap, strong economic growth could still produce a net cyclical surplus. Several economists have argued that at full employment the taxing and spending programs of all governments combined could result in a hefty surplus. (For a succinct review of the debate see "The Canadian Economy: Annual Report 1983," Saturday Night, July 1984, especially p. 16-20.)

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theoretical construct or model. It was also necessarily informed by calculations of a political and partisan nature. Noted J.R. Mallory: "For all the precision of economic modelling, it is extremely difficult to anticipate the behavior of an economy with so many variables a year in advance, let alone five years. The process of government planning is based on political rationality as interpreted by ministers, and compounded by the complex politics of inter-agency rivalry and bureaucratic empire-building."(28)

One lesson was to be careful not to put too much faith in any planning system. Another was that the machinery of the expenditure budget must not become so complex that it is impervious to political will. As Richard French concluded: "Planning cannot create political conviction. ... If planning systems ran at cross-purposes, it was because no sufficient ministerial consensus in support of any particular one existed. Without political conviction based on popular perceptions, the planning enterprise is like a hothouse plant, with bright flowers and no roots."(29) Audrey Doerr referred to a "saturation psychosis" of administrative reform which focused on the development of new evaluation and appraisal systems and created large central agency bureaucracies.(30) She argued that the emphasis on managerial (committee) roles, coupled with frequent cabinet changes, eroded the tradition of ministers exerting strong political direction over their own departments:

> While collegial decision-making processes can in part offset constant shifts in ministers, collective direction can never entirely compensate or replace individual ministerial leadership in maintaining control and accountability of departmental activities. Strong

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(28) J.R. Mallory, The Structure of Canadian Government, p. 192.

(29) French, How Ottawa Decides, p. 153.

(30) Audrey Doerr, The Machinery of Government in Canada, Methuen, Toronto, 1981, p. 198. Mallory lamented that: "New recruitment has generally been confined to auditors and program evaluators, rather than those whose duty it is to plan and deliver programs. The result will be more chiefs and fewer Indians." (The Structure of Canadian Government, p. 193.) Between fiscal 1980-1981 and 1983-1984 the main estimates of program expenditures grew by 321% for MSERD and by 169% for MSSD.

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> collective direction, if not balanced by strong individual leadership, may serve to diminish individual ministerial responsibility or at least circumscribe it. Senior officials and their subordinates are expected to provide continuity through a series of different ministers during the life of a particular government and/or through changes in government. The absence of strong political direction to a department, however, could enhance officials' influence on the one hand or weaken their ability to be effective on the other.(31)

Any theory of expenditure control that is based on apolitical assumptions is bound to fail. No doubt better management techniques are a part of the solution. For example, the Comptroller General's IMPAC (Improvement in Management Practices and Controls) program, with a one-time cost of $200 million to implement, was expected to result in cost savings of $200 million per year when fully operational in the mid-1980s. But although not insignificant, these economies at the margin are very small compared to the increase in the deficit and in statutory entitlements over the same period. As Mallory put it: "Greater cost-effectiveness in the management of the public service is no doubt a goal in itself, but its overall effect on the fiscal malaise of the federal government is likely to be slight."(32)

When one looks at the federal budget one realizes that the margin of manoeuvre available to the government is indeed slight unless it is prepared to undertake major program cuts. By the time PEMS was in place, already over 60% of the budget was not subject to annual appropriation. Indeed, only about 17% of the budget was really considered as "controllable," with the envelope reserves for new policy initiatives amounting to little more than 1% of the total.(33) While the rate of growth in government spending has slowed markedly since the heyday of Keynesian fiscal policy, great rigidities in the existing pattern of

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(31) Doerr, op. cit., p. 195.

(32) Mallory (1984), p. 193.

(33) For similarities to the budgetary situation of the U.S. federal government see McCaffery (1984), p. 61.

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spending will continue to make internal reallocations very difficult. Without an expanding federal "pie," the management of discretionary spending (never large in any event) has become clearly less important to departments than protecting their A-base allocations. The prospect of a zero-sum game with definite winners and losers leads to a multiplication of conflicts within the bureaucracy with everyone seeking to minimize losses. The defence of locked-in A-base expenditures is aided by the rent-seeking behaviour of departmental clients, not to mention the fact that the estimated 40% of Canadian adults who are directly or indirectly on the public payroll form a sizeable bloc of voters.(34)

The many constraints on the government's margin of discretion do not mean that expenditure control is a lost cause. But the envelope system has proved primarily effective at the margins where there are discretionary new expenditures to be controlled. Even in this respect, PEMS can be only as good as the assumptions in the fiscal plan upon which it depends, and given structural rigidities, loopholes (e.g., the resort to non-budgetary instruments), and political realities, it is not particularly effective overall as a restraint against the expansion of the public sector. Nonetheless, the elaboration of PEMS under Clark and Trudeau represented an important advance in strategic budget planning. Among the system's established merits are: the enforcement of Cabinet authority over the budgeting process, the recognition of expenditure limits based on the performance of the economy, the integration of policy with expenditure management so that Cabinet committees combine spending and saving responsibilities, the elaboration of a fiscal framework and multi-year plans which clarify objectives and the means to achieve them, and the institution of program evaluation and expenditure analysis as an ongoing element in government decision-making. The future of PEMS would therefore seem secure.

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(34) This bottom line of a "strong built-in resistance to any shrinkage in the public sector" is stressed by Robert Adie and Paul Thomas, Canadian Public Administration: Problematical Perspectives, Prentice Hall, Scarborough, 1982, p. 149. See also p. 155-158 for a useful critical overview of the changes to the expenditure budgetary cycle under PEMS.

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THE CONTINUED EVOLUTION OF PEMS SINCE 1984

The brief 1984 Turner government began the process of streamlining and simplifying PEMS. Specifically, the two ministries of state for social development and for economic and regional development (MSSD and MSERD) were disbanded. Their staff support role was transferred to the Privy Council Office (PCO), but the practice of preparing "assessment notes" on spending proposals in these areas was dropped. (As well, the Federal Economic Development Coordinators in MSERD were moved to the Department of Regional Industrial Expansion, DRIE, which has since in turn been dissolved -- in part decentralized to agencies located in Atlantic and Western Canada, and the remaining functions brought into a new ministry of Industry, Science and Technology.) Another important change introduced by the Turner government was abolition of the so-called "mirror committees" of deputy ministers which had in a sense shadowed the work of the PEMS policy committees of Cabinet.

The Mulroney government continued these reforms and quickly added its own significant amendments. The number of Cabinet committees was reduced from 13 to 9, and the number of envelopes from 10 to 8. However, the essential features of PEMS remained intact, and its principal purposes were restated as:

> 1. The preparation of a long-term fiscal plan encompassing government revenue and expenditures over a five-year period; that is, setting out the overall financial constraints within which policy choices must be considered.
>
> 2. The establishment of specific expenditure limits (resource envelopes) for policy sectors, related to the government's priorities, and the assignment of the responsibility for managing a particular policy sector's resources to the appropriate policy committee of Cabinet.(35)

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(35) Canada, Privy Council Office, "The Policy and Expenditure Management System," as reprinted in Kenneth Kernaghan, ed., Public Administration in Canada: Selected Readings, 15th edition, Methuen, Toronto, 1985, p. 193.

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Beyond continuity in these basic elements of envelope budgeting, in succeeding years clear differences have emerged to distinguish the current from the old system. These differences are not only procedural and organizational, but also political in the larger sense. In brief, the number of expenditure envelopes has stabilized at eight, and they have been reassigned within a revamped Cabinet committee structure. Lines of authority are cleaner and more direct as a result. There is, in conjunction with that reorganization, a renewed emphasis on individual ministers exerting political control over their ministries, and on fiscal restraint and program re-evaluation within each envelope as the way to create room for new funding proposals. As Ian Clark has described it:

> Individual ministers now have greater discretion to make expenditure decisions within their approved departmental resources without cabinet approval, where they judge that the policy or political implications of the decision are not sufficient to warrant collective cabinet examination. This is intended to simplify decision-making and increase the ability of individual ministers to exercise their discretionary authority within broad corporate management standards. At the same time, the access to the policy reserves is intended to be more limited and ministers are encouraged to look to their own budgets rather than to "the centre" to finance new proposals. Minor expenditure initiatives are expected to be financed out of internal resources rather than the policy reserves.(36)

Robert Adie and Paul Thomas also observe that: "During the last Trudeau administration the policy reserves were typically less than one percent of the total budget which meant that ministers were still obliged to make choices within distinct limits. Under the Mulroney government, policy reserves have been virtually nil and the operative phrase has been restraint."(37)

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(36) Ian Clark, "Recent Changes in the Cabinet Decision-Making System in Ottawa," Canadian Public Administration, 28:2, Summer 1985, p. 197.

(37) Robert Adie and Paul Thomas, Canadian Public Administration: Problematical Perspectives, 2nd edition, Scarborough, Ont., Prentice-Hall Canada, 1987, p. 274.

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In terms of the distribution of total spending by envelope over the past decade, Figures 3 and 4 reveal some interesting trends. Four envelopes have seen their share drop -- Economic and Regional Development, Social Development, Fiscal Arrangements and Services to Government; one envelope -- Parliament -- has remained unchanged; and three have increased their share -- marginally in the case of Foreign Affairs and Aid, and dramatically in the case of Public Debt. This last envelope and Services to Government have experienced the greatest relative change, though in opposite directions. At the same time, although the rate of growth of the Social Development envelope has slowed, it still accounts for the lion's share of the expenditure budget. This envelope includes many large statutory spending programs which, as Figure 5 shows, continue to grow much faster in budgetary terms than the "discretionary" portion of spending which must be voted annually. Since 1985-86 the average annual growth rate of voted expenditure has been under 3%, or less than the rate of inflation. But the problem in terms of further restraint is that about 70% of total spending consists of statutory outlays that remain effectively locked-in to the A-base estimates.

For the current fiscal year (1988-89), the alignment of spending departments and agencies with their respective expenditure envelopes and the responsible Cabinet committees is as presented in Figure 6. Several changes are worth noting. After taking office, the Mulroney government briefly abolished the foreign and defence policy committee and transferred its functions to priorities and planning. But the overloading of "P&P" was such that the foreign and defence committee was reconstituted in the summer of 1985 and given back responsibility for its two envelopes. In addition to P&P, which acts as an "executive committee" of Cabinet, only four other Cabinet committees out of a total of eleven are involved in PEMS. Significantly, the President of the Treasury Board now chairs two of these committees -- Treasury Board itself, and the committee on economic and regional development. In September 1986 the government operations committee was wound up. Although a new committee was established on "privatization, regulatory affairs and operations," the envelopes from the old committee -- namely, Parliament and Services to Government -- were

Figure 3

Envelope Shares of the Expenditure Plan

(Percentage)	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Economic and Regional Development	13.2	14.1	13.1	13.1	12.5	13.6	10.6	10.1	11.3	10.3
Social Development	49.1	48.1	45.1	47.8	48.3	46.3	46.6	46.9	45.5	45.5
Fiscal Arrangements	6.5	6.3	6.3	6.3	6.2	5.5	5.3	5.4	5.3	5.4
External Affairs and Aid	2.6	2.3	2.4	2.3	2.5	2.4	2.2	2.5	2.7	2.7
Defence	8.2	8.1	8.0	7.8	8.1	8.0	8.2	8.6	8.4	8.5
Parliament	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Service to Government	4.4	3.7	4.6	3.3	3.6	3.5	4.0	3.4	3.3	3.0
Total Program Expenditures	84.1	82.9	79.8	80.9	81.3	79.4	77.1	77.1	76.6	75.4
Public Debt	15.9	17.1	20.2	19.1	18.7	20.6	22.9	22.9	23.4	24.6
Total envelopes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Canada, 1988-89 Estimates, Part I: The Government Expenditure Plan, Ottawa, Minister of Supply and Services Canada, 1988, Supplementary Table 2.1S, p. 17.

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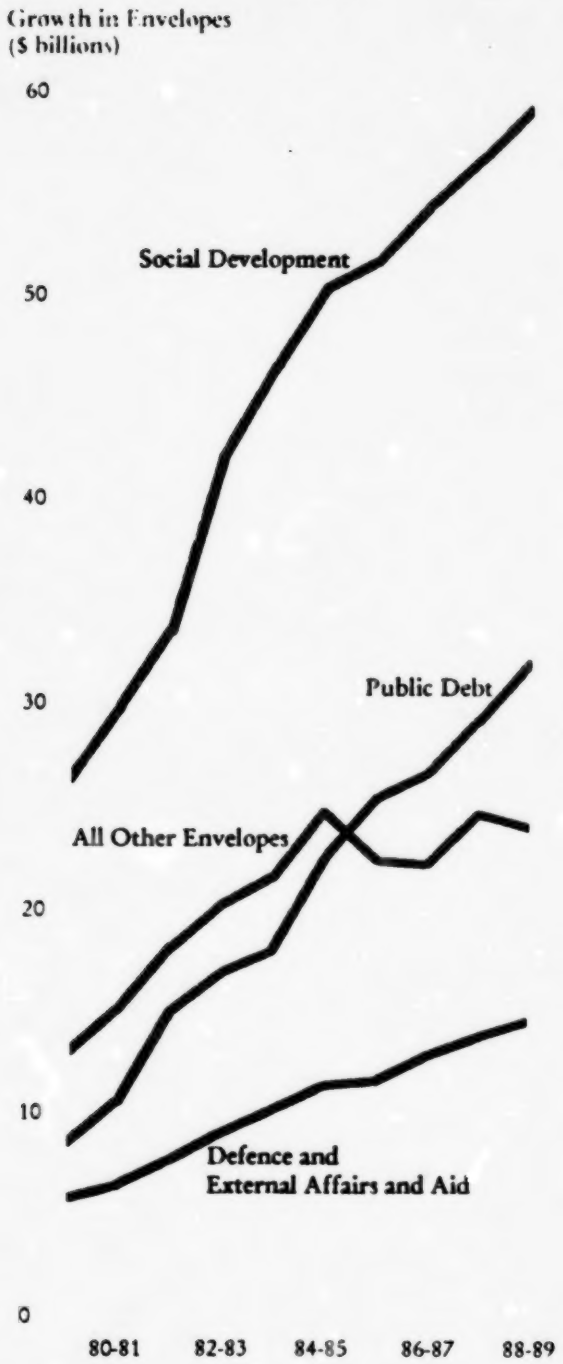
Figure 4



Source: 1988-89 Estimates, Part I, Chart B, p. 10.

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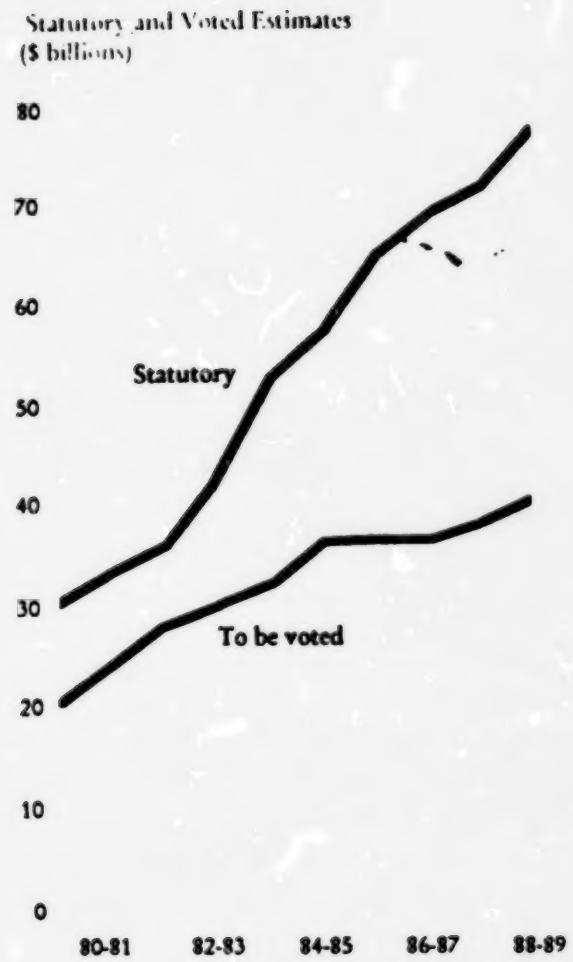
Figure 5



Source: 1988-89 Estimates, Part I, Chart C, p. 12.

Figure 6

The Current Envelope System/1988-89 Estimates

CABINET COMMITTEES:	PRIORITIES AND PLANNING	ECONOMIC AND REGIONAL DEVELOPMENT	SOCIAL DEVELOPMENT	FOREIGN AND DEFENCE POLICY	TREASURY BOARD
EXPENDITURE ENVELOPES:	Fiscal Arrangements $7.0 billion (5.4%) Public Debt $32.1 billion (24.6%)	Economic and Regional Development $13.4 billion (10.3%) - Agriculture - Atlantic Canada Opportunities Agency - Communications - Consumer and Corporate Affairs - Energy, Mines and Resources - Fisheries and Oceans - Forestry - International Trade - Labour - Regional Industrial Expansion - Science and Technology - Transport - Western Diversification Office	Social Development $59.4 billion (45.5%) - Arts and Culture - Canada Mortgage and Housing - Employment and Immigration - Environment - Fitness and Amateur Sport - Indian Affairs and Northern Development - Justice - National Health and Welfare - Secretary of State - Solicitor General - Veterans Affairs	External Affairs and Aid $3.5 billion (2.7%) - External Affairs - Foreign Aid (CIDA and others) Defence $11.1 billion (8.5%) - National Defence	Parliament $235 million (0.2%) - House of Commons - Parliamentary Library - Senate Services to Government $3.9 billion (3.0%) - Canada Post - Central Agencies - National Revenue - Public Works - Supply and Services

* Total spending allocated by envelope is estimated to be $130.5 billion.

Source: Ian Clark, Recent Changes in the Cabinet Decision-Making System, Ottawa, Privy Council Office, December 1986, p. 10; 1988-89 Estimates, Part I, The Government Expenditure Plan p. 9 and 17.

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transferred to Treasury Board. However, the new committee, while outside PEMS, may still "be asked to consider policy issues which arise in the portfolios in the Services to Government envelope."(38)

Returning to the overall effect of the Mulroney government's approach to PEMS, Kenneth Kernaghan and David Siegel offer an assessment which deserves to be quoted at length. In addition to the fiscal restraint imperatives, they stress the factors of political style and desire for control:

> The general style of governing which Prime Minister Mulroney brought to office also had an impact on the budget process. This style had several elements. In terms of political ideology, he was concerned about streamlining government and reducing the size of the bureaucracy. He also wanted to emphasize political inputs into the policy-making process which would limit somewhat the role of public servants. These elements of political style were supplemented by a personal style which involved a brokerage, consultative approach to governing.
>
> The specific changes in the budgetary process which have come about are:
>
> - emphasis on a strategic plan geared to the government's **term of office** rather than a new five-year plan prepared each year by the bureaucracy;
> - emphasis on ministers managing their own departments rather than collegial decision making in Cabinet committees;
> - emphasis on greater political involvements in the departmental decision-making process and a more limited role for the permanent public service.
>
> (...) In contrast with the Trudeau style, which emphasized collegial decision making, the Mulroney approach emphasizes the division of responsibilities for particular contributions to the overall budget picture.

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(38) Ian Clark, Recent Changes in the Cabinet Decision-Making System, Privy Council Office, Ottawa, December 1986, p. 11.

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However, there were many other differences in the two governments' approaches to PEMS. The traditional PEMS exercise involved the preparation of a five-year strategic plan each year, regardless of how many years were left in the government's mandate. In some cases this exercise was a case of just "going through the motions," because politicians were not very interested in five-year plans when they were going to be fighting an election in six months.

This kind of pro forma five-year strategic plan prepared by the bureaucrats was replaced by a political strategic plan, which is found in the Prime Minister's initial throne speech and the Minister of Finance's first major statement, A New Direction for Canada. These documents set out the government's plan for its entire term of office.

Another important structural change by Mulroney has been the elimination of much of the formal documentation required as a part of the system under Trudeau. These formal planning documents have been replaced by less formal letters or memoranda, which each minister writes to the chairperson of his or her Cabinet committee. There is no specified format or timing for these documents; they could be submitted several times each year if a minister so desired. In general, they contain a discussion of overall departmental priorities and a request for funds for the upcoming year and some financial estimates for future years. These documents are used in the Cabinet policy sector committees to assist in setting priorities, which are then communicated to the Cabinet Committee on Priorities and Planning.

These letters or memoranda take the place of the "strategic overview," which was a very detailed elaborate document required during the Trudeau years. The Mulroney government felt that the detail required in this document caused it to become a product of the public service rather than the minister, although it carried the minister's approval. Therefore, the Mulroney government opted in favour of a shorter, less detailed document which could be prepared by the minister and his or her political staff. This is another example of the manner in which Prime Minister Mulroney is emphasizing the need for ministers to control their departments.(39)

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(39) Kenneth Kernaghan and David Siegel, Public Administration in Canada, Methuen, Toronto, 1987, p. 541-2. See also Adie and Thomas, Canadian Public Administration, p. 280.

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Under PEMS as it now stands, ministers are expected to be in firm control of their departments with respect to both policies and budgets. The relevant Cabinet committees are encouraged to look for savings and potential reallocations within their envelopes. With respect to the use of indirect expenditures to achieve policy goals -- such as loans and loan guarantees, tax expenditures, or cost-recovery initiatives -- it is up to the Minister of Finance and the President of the Treasury Board, or in some cases the Prime Minister, to determine the envelope accounting impacts of any proposals coming forward from PEMS committees. These committees also deal with many proposals with few or no immediate budgetary implications, but which could have substantial policy and political effects.(40)

In terms of priority-setting and the forward planning cycle of PEMS, the Mulroney government has moved toward fitting it into a somewhat more regular budget-making timetable. The Finance Minister should normally present his annual Budget "in or close to February. An annual First Ministers' Conference held in November has also become a fixed element of the overall planning cycle.

"The Government's broad priorities are normally reviewed twice a year by the Priorities and Planning Committee. In the spring, the Prime Minister has asked individual Ministers to submit a letter setting out their strategic priorities. Cabinet committees review priorities in particular sectors, in anticipation of consideration of the Government's overall directions by Priorities and Planning at its summer priority-setting meetings. These planning meetings usually include a meeting at the end of the spring sitting, and another before Parliament reconvenes in the autumn.

"Towards the end of the year, in preparation for the February Budget, the Minister of Finance, after consultation with the President of the Treasury Board, recommends a fiscal framework to Priorities and Planning. This recommendation may include expenditure re-allocation proposals. Priorities and Planning then determine the fiscal framework,

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(40) Ian Clark, Recent Changes in the Cabinet Decision-Making System, (1986), p. 16.

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defining overall priorities (including specific directions to policy committees) and major policy initiatives (with their associated expenditure commitments), and setting envelope levels."(41)

POSTSCRIPT: THE SECOND TERM CABINET REORGANIZATION

On 30 January 1989 Prime Minister Mulroney announced the new Cabinet for the government's second term. The total membership remains large at 39 ministers and the number of Cabinet committees increases to 15 while their size is reduced. The two large PEMS committees - social development and economic and regional development - have been broken down into new committees. At the apex of the system, there are also some very significant changes which are designed to further strengthen, and in the process centralize, control over expenditure decisions. Only two committees, Treasury Board and Priorities and Planning, will be able to authorize expenditures, with the former concentrating on routine matters and statutory obligations, and the latter (the largest, at 19 members) in charge of the overall policy agenda of the government. This means that the other PEMS committees will no longer determine the disposition of their envelopes' budgets and policy reserves.

In part because P&P is now as large as full cabinets used to be, a new "Operations" committee, chaired by the Deputy Prime Minister, has been given formal status to review "the Government's weekly agenda to ensure proper coordination in responding to issues and developing new policies." In addition, a new "Expenditure Review" committee, chaired by the Prime Minister, has been established with a mandate "to ensure that the Government's expenditures continue to be directed to its highest priorities, and that expenditure control continues to contribute to deficit reduction." These changes signal a continuation of the thrust for greater fiscal and political control over the public sector which characterized the government's first term.

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(41) Ibid., p. 16-17.

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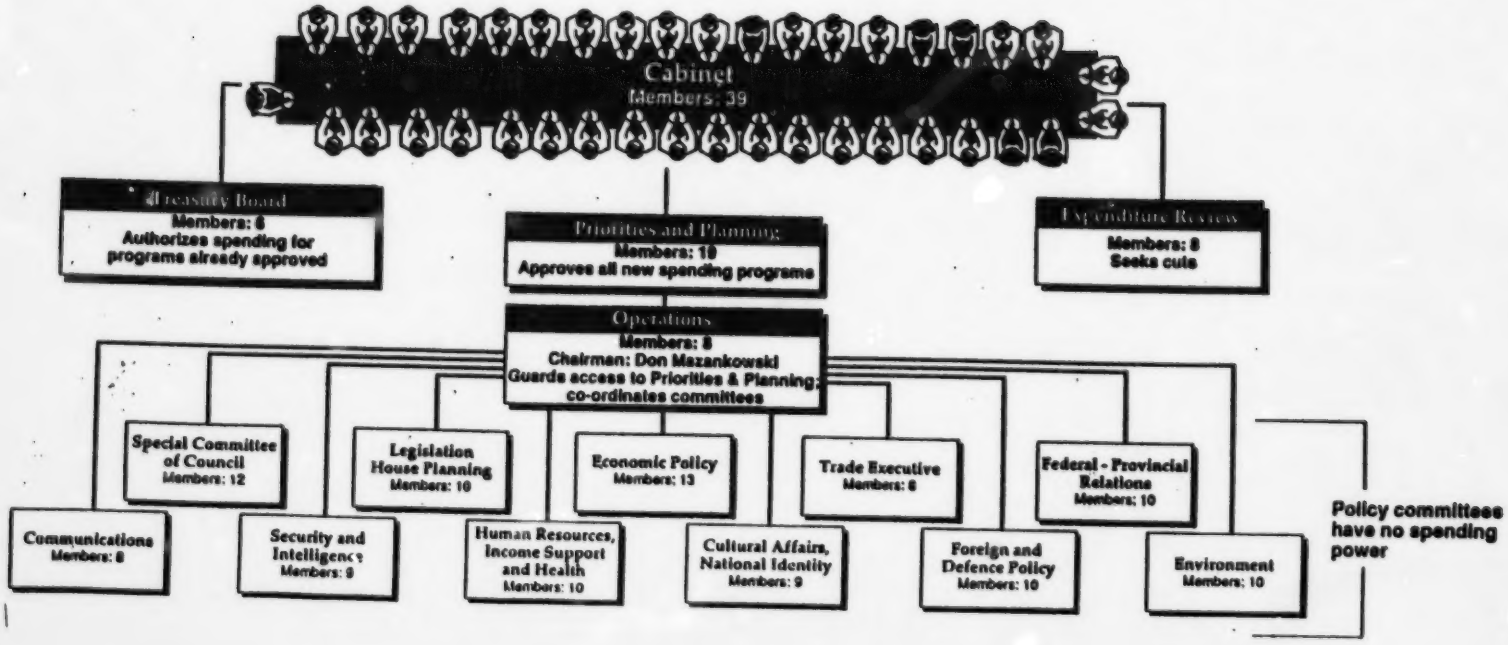
APPENDIX

THE POST-PENS MULRONEY CABINET, JANUARY 1989



Source: The Ottawa Citizen, 4 February 1989